SESSION ONE

Overview of Issuer Responsibilities Post-Issuance

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CDIAC

Please select the most prominent type of credit your agency issues or is looking to issue

Do not edit
How to change the design

How many people in your agency have been assigned debt issuance and administration responsibilities?

The Slido app must be installed on every computer you're presenting from

slido

You've Priced the Bonds… Now What?

- Pre-Closing Activities
  - Document Finalization
    - Teams review and confirm accuracy of edits
    - Significant Changes to OS – require stickering
    - Signatures (Electronic or Manual)
    - Set up funds for the acceptance of proceeds to be held by the agency
- Closing – Day of
  - Call to confirm receipt of funds and release of bonds to DTC
  - Prepare for the next steps

You’ve Closed and Have Access to Funds… What Now?

- The Bonds issued carry significant responsibilities going forward.
  - Debt Service Payments
  - Investment of Proceeds
  - Recording Transactions accurately for ACFR
  - Monitoring
    - Cash Flow
    - Use of Funds
    - Use of Facilities/Equipment
    - Arbitrage
  - Reporting
    - CDIAC
    - EMMA
    - Governing Board
    - Rating Agency, Investor Relations – Continued Communications (within limits)
  - Records Retention

Money, Money, Money

- Proceeds
  - Costs of Issuance
  - Project Fund
  - Debt Service Reserve
  - Capitalized Interest
- Invest Funds in accordance with:
  - State and Federal Law
  - Ordinance/Indenture Requirements
  - Internal Investment Policy
- Use Project Fund Proceeds timely

Ongoing Responsibilities

- IRS
- MSRB/EMMA – Information direct to Investors/Rating Agencies
  - Continuing Disclosures
- CDIAC
  - Report of Proposed Issuance
  - Report of Final Sale
  - Annual Debt Transparency Report
  - And if applicable – Mello-Roos/Marks Roos Reports
- Trustee, Credit Providers, Swap Counterparties, etc.
- Training (Continuing Disclosure, Use of Proceeds, Records Retention)

What Do I Need To Track?

- Use of the Bond Proceeds
  - Authorized list of projects
  - Construction Proceeds spent in a timely manner
  - Cash Flow for expected draws
- Investments
  - Permitted investments in accordance with the bond documents (Tax/Trust)
  - Permitted investments with state law and your investment policy
- Debt Service / Cash Flow Availability
  - Include Debt Service payments in the budget
  - Monitor cash flows and timing of investments to maintain sufficient liquidity – coordinate with the treasurers.

Record Keeping – Term of Bonds + 3 Years

- Keep Accurate Accounting Records
- Maintain proper tracking of:
  - Transcript Files
  - Documents of evidence of the expenditures of bond proceeds
  - Documents of evidence of the use of the facilities
  - Documents of evidence of the source of payment and security of the bonds
  - Documents pertaining to the investments of the bond proceeds
- IRS Electronic Storage Guidelines
- Refunding may extend the timeline, follows new final maturity of refunding bonds.

Policies/Procedures/Systems

- Review your Debt Policy – Update accordingly
- Review your Disclosure Policies and procedures – update accordingly
- Establish systems for reminders of dates and responsibilities or covenants (add calendar reminders) – tools are available
- Debt Service Payments (timely)
- Continuing Disclosure Filings
- Other Reporting Requirements
- Arbitrage (track liabilities for ACFR)
- Use Consultants when appropriate (Arbitrage, Trustee, Tax Counsel, Disclosure tracking)

Event Filings – Know What Needs to be Disclosed

- Principal and interest delinquencies
- Non-payment related defaults, if material
- Unscheduled draws on reserves
- Unscheduled draws on credit enhancements
- Substitution of credit or liquidity providers
- Adverse tax opinions
- Modifications to rights of security holders, if material
- Bond calls, tender offers
- Defeasances

Event Filings – Know What Needs to be Disclosed (continued)

- Release or Substitution or sale of property securing repayment
- Rating Changes
- Bankruptcy
- Consummation of a merger, consolidation, or acquisition
- Appointment of a successor or additional trustee or name change of trustee

NEW AS OF FEBRUARY 27, 2019

- Incurrence of a financial obligation, if material
- Default, event of acceleration, termination event, modification of terms or other similar events…which reflect financial difficulties

Post-Issuance Tax Compliance (in greater detail)

- Record Retention
- Arbitrage and Yield Restrictions
- Correct Expenditure of Proceeds
- Monitor use and disposition of facilities
  - Private Use limitations
- Reach out to Tax Counsel when you have questions or things go haywire (there are often remedies, but they require timely compliance as well)

Arbitrage – a little detail

- What is Arbitrage?
  - Earning a profit by capitalizing on differences between investments and debt service on tax-exempt bond proceeds in taxable securities
  - Positive arbitrage represents earnings above the arbitrage yield
  - Arbitrage is not bad, but needs to be rebated back to the IRS, subject to certain exceptions under which the issuer may retain those earnings
- Calculation requirements
  - Every 5 years and at Final Maturity
  - Refunding triggers a new Final Maturity
- Calculation recommendations
  - Every year during the construction period or if the last year's interim calculation had positive arbitrage liability

Arbitrage (continued)

- Liabilities are reportable in the ACFR and in other state reports
- Set aside funds each time a liability is identified (don’t be surprised by a payment when due)
- Set up reminders not just for the calculation, but for the payment deadline as well.

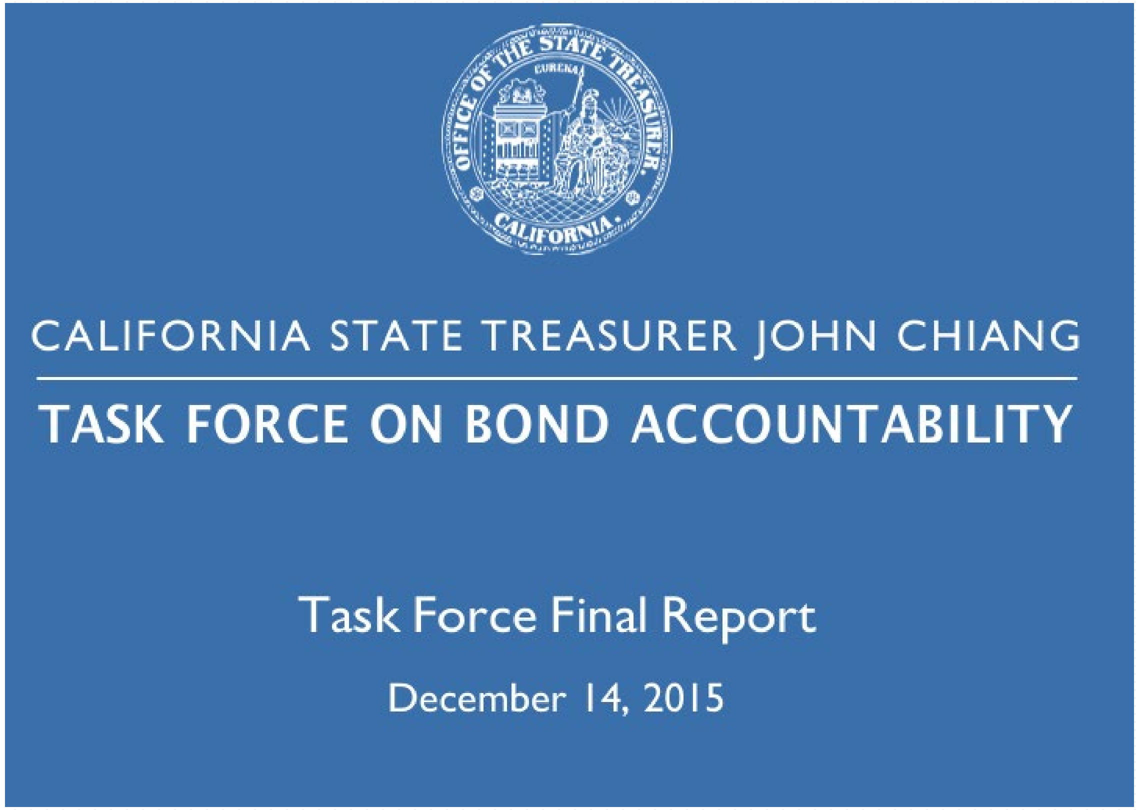
Private Use/Private Payment Tests

- Private Business Use Test – No more than 10% of proceeds can be used for private business use
- Private Payment Test – No more than 10% of the payment of principal or interest on the bonds is made or secured by payments for private business use
  - Both test must be met in order to have private activity bonds
  - Engage Tax Counsel to seek guidance
    - Federal Government is considered/treated as a Private Entity
    - If a property that was improved utilizing bond proceeds is going to be sold to a private entity remediation is required

Other Compliance Issues

- Bond Indenture Requirements/Covenants
  - Coverage Ratios
  - Progress Reports / Financial Reports
    - Private Placements, or Alternative Financings may come with additional reporting requirements
  - Additional Bonds Tests
- Debt Policy Requirements
- Monitor changes to laws and regulations
- Keep yourself educated – regularly attend trainings when possible

Bond Accountability: Best Practice Guidelines



CALIFORNIA STATE TREASURER JOHN CHIANG

TASK FORCE ON BOND ACCOUNTABILITY

Task Force Final Report

December 14, 2015

Task Force Findings

- Internal controls ensure agency funds are used properly.
- Bond fund management is more complex due to strict legal limitations.
- Public agencies lack a full set of commonly accepted best practices for bond oversight.
- Task Force developed 17 guidelines in 5 control categories to strengthen and supplement existing controls.
- Greater transparency is needed for taxpayers and stakeholders.

Control Environment

- Governing body holds ultimate responsibility for internal controls.
- Ethical leadership and “tone at the top” drive control effectiveness.
- Segregation of duties reduces risk of misuse.
- Written procedures must align with internal control objectives.
- Competent personnel and regular training are essential.

Risk Assessment

- Define objectives for the bond program.
- Identify risks that could prevent achieving objectives.
- Assess fraud and misuse risk explicitly.
- Consider internal and external risk factors.
- Adjust policies (debt, investment, administrative) based on risk profile.

Control Activities

- Apply consistent controls to bond funds and other governmental funds.
- Use “three-way match” for disbursements (invoice, requisition, receipt).
- Require supporting documentation before payment.
- Approving officer must certify compliance with controls prior to disbursement.
- Conduct annual compliance tests for disclosure and tax requirements.

Information and Communications

- Maintain detailed fund and account structures for bond proceeds.
- Publish annual expenditure reports to governing bodies and the public.
- Use websites and FAQs to communicate bond program status.
- Keep reporting timely, accurate, and accessible.
- Train staff regularly on reporting obligations and control changes.

Monitoring

- Evaluate internal controls regularly.
- Use oversight committees for independent review.
- Conduct annual control system reviews.
- Include compliance testing in audit programs.
- Provide fraud hotline or webpage.

Accountability in Practice

METROPOLITAN TRANSPORTATION COMMISSION

SACRAMENTO COUNTY

Accountability in Summary

- Strong internal controls safeguard bond proceeds and taxpayer trust.
- Guidelines supplement existing systems and strengthen risk mitigation.
- Transparency improves accountability and public confidence.
- Agencies should embed guidelines into policies, training, and oversight practices.
- Bond Accountability Checklists
  - Debt Issuance and Management Review Checklist
  - Internal Control System Checklist

QUESTIONS?

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